Student Housing Developers Finding Ideal Locations, Enjoying Record Performance

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Entering the fall term, there’s plenty of good signs for student housing investment.

September 1, 2023 |

Updated September 1, 2023

7 minute read

Student housing developers have graded well lately when it comes to performance, and many expect that trend to continue, especially in comparison to many other commercial real estate asset classes that are facing numerous headwinds.

According to Yardi Matrix, student housing has maintained a solid performance through Q2 this year, ahead of the approaching fall 2023 term.

The average rent per bed at Yardi 200 universities was $846 at quarter-end, a new all-time high.

Despite an anticipated mild recession in the fourth quarter of this year, Yardi Matrix expects student housing fundamentals to hold their own as the sector is typically less impacted by recessions than other commercial real estate property types.

As of June, preleasing has been strong, with 86.6% of beds at Yardi 200 universities filled for the fall term, a 5.2% increase from the prior month and a slight (0.4%) increase over last year.

June also marked the fifth consecutive month of annual rent growth of over 7% at Yardi 200 universities, at 7.2%. 2022 held the previous rent record for student housing.

Loren King, CEO and Co-Founder, Trinitas, said rent growth remains strong in student housing and is not yet abating largely due to the annual leasing cycle (academic calendar year) shifting the realization of rent growth to lag one year behind the gains seen in multifamily.

“We expect continued strong well-above-average rent growth in tier-one university markets for the 2023-2024 pre-leasing season,” he said.

Power 5 schools averaged 6.7% rent growth between October 2021 and October 2022, a record year for average rent growth, and so far, according to CollegeHouse data, student housing rents across the country have grown an average of 7.6% between October 2022 and July 2023, setting up for strong October-to-October numbers, King said.

Todd Benson, Principal, Pebb Capital, agreed, saying risks in student housing are lower than other asset classes because students “always need a place to live and are not as sensitive to market fluctuations when their requirement is location specific. Historically, when the economy is struggling, more students stay in school until job opportunities improve, therefore, it’s counter-cyclical to a degree.”

Benson said the greatest risk to student housing is not the economy, but rather investment near schools that are experiencing enrollment decline.

King said levels of new supply remain lower than in recent years and are likely to be further constrained in subsequent years by lower-than-typical starts in 2023.

“This trend is likely to continue in 2024 as difficult capital market conditions and elevated construction costs lead to many student housing development projects being canceled or shelved,” King said.

Lenders and Institutional Equity Sources Restrictive

King said that even though student housing at tier-one public universities continues to perform exceptionally well, general economic factors affecting national and regional lenders and institutional equity sources are restricting investment in off-campus student housing despite its favor and strong performance.

“As liquidity begins to loosen, student housing is likely to be a preferred and primary beneficiary,” King said. “Capital is still available for student housing development and deals are still getting done but it is primarily with the strongest sponsors and select projects.”

According to Yardi Matrix, transaction volume through Q2 was down about 73% from the same time last year.

Dennis Malloy, Commercial Loan Originator at Alliant Credit Union, said the student housing asset class continues to attract capital from across the investment spectrum.

Blackstone’s $12.8 billion student housing portfolio acquisition in 2022 is a good example of that, Malloy said, but private investment activity also remains robust.

Identifying Ideal Locations

Alliant continues to pursue well-located assets at Power 5 universities with strong enrollment trends.

“Additionally, the assets that are positioned close to campus or even walking distance to campus tend to garner a premium,” Malloy said. “This can vary by market as well with some universities catering to students that live farther off campus and take shuttle buses or drive to some campuses.

“Geographically, we’re seeing outsized activity for projects in the Southeast and Texas, due to demographic shifts in these regions that have caused similar attraction in the multifamily asset class.”

States with the highest population growth of 18- to 24-year-olds are Texas, Nevada, Washington and Minnesota, according to architecture firm Ankrom Moisan.

Jason Jones, Associate Principal, Ankrom Moisan, said affordable rents are a major driving factor when students decide where to live.

“It becomes extremely difficult to make a project pencil when you combine low rents, high construction costs and rising interest rates,” Jones said.

“In response, architects, developers and contractors must approach projects with affordability and quality as a top priority. Understanding the project goals and collective understanding of where the money needs to be spent is key to a successful student housing project in 2023.”

Benson said Pebb Capital remains bullish on new opportunities within major urban cities, like New York, which offers more dynamic residency and is “hedgier” than college towns. It looks to trophy sites near universities that are hard to come by and incur higher development costs.

“Demand far outstrips supply, particularly of high-quality student living options; therefore, urban housing can achieve higher rents and maintain lower vacancy, which makes it an appealing investment,” Benson said.

More Moving Back on Campus

Jared Bradley, The Bradley Projects and The Bradley Development Group, said there’s a trend toward students moving back onto campus into rehabilitated older dorms.

“In the past 20 years, private, for-profit developers would scour real estate surrounding campuses bent on finding an ideal location to develop student housing,” Bradley said.

“However, escalating land values have made this approach more challenging and cost-prohibitive. Consequently, with the growing surge in student enrollments, most universities are now even more pressured to develop their own student housing solutions on their own campus, especially in cities like Nashville, where real estate costs have risen significantly. This shift allows them to exert greater control over costs and tailor the housing to meet their specific requirements.”

In addition to developing new housing, some universities are also investing in the revitalization of older dormitories, Bradley said.

“By undertaking these projects, they aim to bring these dorms up to today's standards and enhance the overall student living experience,” he said.

“The rehabilitation process involves updating fixtures, tiles and paint to improve comfort and aesthetics, ensuring that these dormitories remain functional for current and future students. This approach has its benefits in producing adequate student housing faster than a ground-up project. The downside is that this typically does not produce a new source with new beds to their housing inventory.”

Erik Sueberkrop, FAIA, LEED AP, Founding Principal, Chair Emeritus, STUDIOS Architecture, said ensuring on-campus housing availability, particularly in real estate markets where housing availability and affordability is a challenge, is a goal.

Many institutions are thinking more critically about how they will provide the option of housing on-campus,” Sueberkrop said. “This is especially the case in California; UCLA, for example, has committed to guaranteeing up to four years of university housing for incoming freshmen. Volume increases of this nature have implications for broader campus planning and future real estate decisions, as well as for recruitment efforts—presenting universities with a powerful (and lucrative) bargaining chip in attracting students and their parents with modern, safe and subsidized apartments.

Emphasizing Experience Building in Design
Student life post-pandemic is all about the experience of being on campus. As a result, spaces that may have once been considered functional or ancillary for a residence hall are being reimagined to encourage connectivity and engagement. Study carrels are being replaced by providing choices like long communal tables, corridors and elevator lobbies are benefitting from greater square footage allowing for casual conversations, and building layouts are being rethought to emphasize a central pattern of circulation — all in service of the student experience.

Greek Life Turns to an ‘Arms Race’ to Add Members
Mathew Siebert, AIA, Partner | Architect, Bockus Payne, said he’s seeing an “arms race” in Greek life housing.

“New Greek housing development has rarely been driven by a lack of available housing for students, but rather by the need to attract incoming new members,” Siebert said. “Interest in updating or rebuilding Greek housing is not deterred by the current economic situation.

“We have found that when one fraternity or sorority begins to update their home or build a new one, it creates an ‘arms race’ on that campus and the other organizations feel inclined to update their home. The organizations are all competing for the same incoming recruits.”

A remodel, add-on or ground-up new house becomes a significant asset, he said, “of course, it all depends on the university in question.”

At Oklahoma State University, for example, a high percentage of the Greek housing has undergone some kind of remodeling or rebuild over the past 10 years with a significant source of funding for these buildings coming from alumni donations.

“Getting it done is often an internal process,” Siebert said. “Updating budgets early and regularly is important throughout the design and documentation process. This begins with grandiose ideas. These ideas are refined throughout the design process to align with budget and schedule.”

Paul Bergeron is a frequent contributor to units.